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Sustainability Growth Innovation

Pulse of SGIs

Services of General Interest in the Green and Digital Transitions

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EXECUTIVE SUMMARY

- A year ago, **the EU economy seemed on a better footing than projected despite rising geopolitical tensions**. As the conflicts in the EU's neighbourhood continue to develop, and as the post-pandemic recovery is slowing down, the growth prospects are on the downside, highlighting increased risks for all economic and non-economic actors. Investments are being strained, leading to risks to the capacity of EU enterprises to address the green and digital transition successfully.

- **Surveyed in the first two months of 2024, SGI enterprises highlighted the following critical concerns regarding the present and the future:**
    - **Skills and labour shortages**: Labour shortages rebounded sharply since the COVID-19 pandemic. SGI employers are also affected by the situation, with further worsening in healthcare and social services and sectors at the heart of the twin transition, such as construction and building renovation or information and communication technologies (ICT). Those shortages directly affect SGIs' ability to face a changing world, increasing the pressure on work-life balance.
    - **Answering the EU housing crisis**: The EU is in the middle of a housing crisis, with an increasing share of people facing issues with the costs associated with housing, and the sector facing increasing investment needs to adapt to the Green Deal. This crisis could have significant spillover effects on the job market, as workers struggle more and more to find accommodation close to their place of work, and young people are forced to postpone their entry into active life or keep living with their parents despite working.
    - **Addressing the administrative burden and reporting obligations**: Enterprises can thrive and grow if they face a good regulatory environment with clear and stable rules and avoid unnecessary regulations and compliance costs. Many providers of SGIs have expressed concerns on new reporting obligations stemming from EU legislation, and call for being provided with the suitable support instruments will be central. Also, some of SGI Europe's national sections have reported the need to monitor the quality of implementation and prevent *gold-plating*.
    - **Preserving investment, including in social infrastructure**: The EU is faced with historic challenges, including adapting to the green and digital transition, supporting Ukraine's defence against Russia, and boosting its Open Strategic Autonomy. It should also include a dedicated focus on social investment to address the resilience of the EU social and economic model.
    - **Better involving social partners in shaping and implementing reform programmes**: Since 2021, the quality of the social partners' involvement in implementing reforms and investments funded by the RRF has been sub-optimal. As we enter the second phase of implementing the RRPs, SGI Europe calls for taking the lessons learned from the first stages and ensuring that social partners are regularly and extensively involved.
    - **Reconciling the Single Market and Cohesion Policy:** The current shape and governance of the Single Market fail to recognise SGIs as the foundation of the European way of life. The lack of a structural approach—best visible through the dissociation between the Single Market and Cohesion Policy—results in turning to SGIs only in case of market failure or when facing a crisis.

ECONOMIC SITUATION

Overall assessment in the EU

In its latest Winter Interim Economic Forecast[1], **the European Commission has lowered the growth outlook for 2024, with inflation set on a lower downward path than projected**. Economic activity in 2023 is now estimated to have expanded by only 0.5% in the EU, with a growth outlook for 2024 at 0.9% and 1.7% in 2025. Inflation is forecast to fall from 6.3% in 2023 to 3.0% in 2024 and 2.5% in 2025.

Following an extraordinary post-pandemic economic rebound, the economic expansion ended against high inflation, collapsing external demand, forceful monetary tightening and the partial withdrawal of fiscal support. Throughout 2023, **energy prices have fallen**, returning to levels similar to those before February 2022, **leading to faster-than-expected moderation of price pressures**.
In that context, and despite pressure from higher risks for shipping through the Red Sea, inflation continues on a steady downward path.

The **EU labour market remained strong in the third quarter of 2023 despite stagnating economic activity**. Employment in the EU and the euro area continued to expand throughout 2023, with the EU employment standing at 75.3%. However, despite the high employment rate, the total number of hours worked stagnated in the last two quarters of 2023, highlighting **difficulties in hiring workers**, especially for **specific skills** and as a **relatively large cohort is retiring** and the **recourse to "labour hoarding".**

Showing resilience in the face of difficulties and uncertainties, the EU still showcase conditions for a gradual acceleration of economic activity in 2024 and 2025. As inflation decelerates, real wage growth and resilient employment should support a rebound in consumption.

Global assessment

In its Economic Outlook – Interim Report February 2024[2], the OECD highlighted that **global growth proved resilient in 2023**, with lower energy prices and fading supply chain pressures helping inflation to decline more quickly than anticipated.

Political instability in the Middle East—especially the Red Sea crisis and the barrage of missiles and armed drones deployed by the Houthi—**has threatened a key trade route for the EU economy**. As such, this **strains trade and disrupts supply chains, leading to increased costs and potential production delays**.
As geopolitical and geoeconomic tensions continue to develop, numerous countries have taken protectionist measures to increase their influence. With the **US elections, the risk of further isolationist and protectionist policies will persist until at least the year's end.**

The Russian war in Ukraine and rising tensions in the Middle East significantly impact the European economy. By **shifting the focus from the green and digital transition to the defence agenda**, the geopolitical **uncertainties have prompted drastic changes in policy priorities, reducing the ability of enterprises** — especially those providing services of general interest and public services — **to invest in their transformation**. Given the high public debt incurred during the COVID-19 pandemic, the EU – and its Member States – ability to support the economy is diminishing.

Further escalation of existing conflicts will lead to significant supply chain problems and rising commodity prices. Uncertainty leads to reduced investment, weakening growth and employment in the short-term and long-term prospects.

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[1] European Commission, Directorate-General for Economic and Financial Affairs (2024), *Institutional Paper 268: European Economic Forecast – Winter 2024*, Publications Office of the European Union, Luxembourg
[2] OECD (2024), *Economic Outlook, Interim Report February 2024; Strengthening the foundations for growth.*

CHALLENGES FOR SGIs IN THE TRANSITION

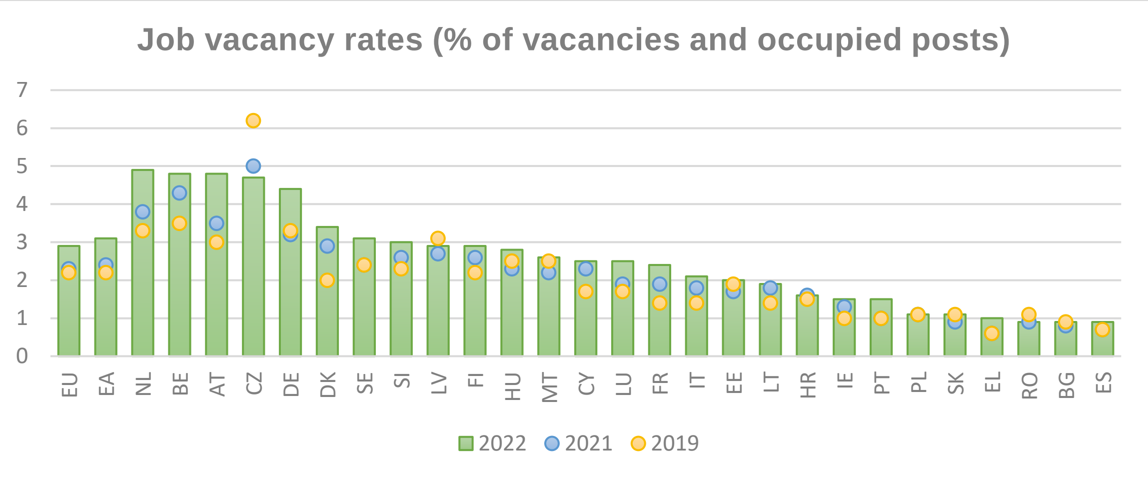
In January and February 2024, SGI Europe surveyed its national sections. Through its network of National Semester Contact Points and lead economists, **SGI Europe gathered members' views on the overall economic situation, the challenges faced by providers of services of general interest, and their involvement in shaping and implementing the National Recovery and Resilience Plans.**

Addressing skills and labour shortages

According to the 2023 "Employment and Social Developments in Europe (ESDE)" report[3], labour shortages rebounded sharply since the COVID-19 pandemic, with the **job vacancy rate reaching 2,9%** (the highest rate ever recorded), **showcasing the tightness of the EU labour market.**

SGI employers report similar shortages in all sectors, with further worsening in **healthcare, social services, and sectors at the heart of the twin transition, such as construction and building renovation or information and communication technologies (ICT).** While facing a fast transition towards a greener and more digital economy, labour shortages in those sectors create bottlenecks, preventing enterprises from fully engaging in their transformation and modernisation.

According to Eurostat figures, the highest vacancy rates were observed in the Netherlands (4.9%), Belgium and Austria (4.8%), and Czechia (4.7%), with the lowest in Romania, Bulgaria, and Spain (0.9%).



Source: *Eurostat, Job Vacancy Statistics [jvs_q_nace2]. Seasonally adjusted data*

Skills and labour shortages directly affect enterprises' ability to face a changing world. Especially in the ongoing economic uncertainty, and as the EU economy is absorbing the high inflation seen in 2022 and 2023, labour shortages increase the pressure on workers' work-life balance and lead to workers demanding higher wages, better working conditions, or additional skills development.

Labour shortages also reduce the EU's economic output while lowering innovation capacity and the quality, affordability, and accessibility of the services provided. They also lead to **enterprises using "labour hoarding"—enterprises showing reluctance to lay off staff when economic conditions worsen, fearing that during the next upturn, they would rapidly face new hiring difficulties, leading to a decline in labour productivity.**

[3] European Commission, Directorate-General for Employment, Social Affairs and Inclusion (2023), *Employment and social developments in Europe 2023*, Publications Office of the European Union, Luxembourg

Better involvement of Social Partners in matching skills

Social partners and the European Commission have committed to address skills and labour shortages as part of the Val Duchesse Tripartite Declaration[4]. Connecting the EU's competitiveness and the need to equip the workforce with the right skills, the Declaration recalls that the right to quality and inclusive education, training and lifelong learning is at the heart of Principle 1 of the European Pillar of Social Rights[5]. **SGI Europe looks forward to the Action Plan on labour and skills shortages that the European Commission will present as a stepping stone to address this issue.**

SGI Europe calls for adopting an **approach inspired by the European Commission's communication "A Strong Social Europe for Just Transitions,"**[6] which highlights the importance of **involving national and regional governments, employers, workers, teachers, and trainers in designing VET programmes**.

The impact of the green transition on SGIs' operations is massive. In addition to the difficulties in finding a workforce equipped with the right skills, many SGI employers express concerns regarding "**Skills obsolescence**," particularly in utilities and various SGIs, where rapid technological changes and digital transformation occur.

To address this challenge, the **approach must support social partners and social dialogue** — at EU, national, and local levels. SGI Europe, together with its members, ran a two-year project, "Green Skills in Vocational Education and Training," between 2020 and 2022, aimed at promoting the strategic importance of vocational education and training in fostering a just green transition. It promoted a **proactive approach to VET, which should manage, shape and govern the changes taking place in the world of work due to the green transition.**

Addressing the fragmentation and lack of coherent governance caused by the profusion of offers in formal, non-formal, and informal adult learning will also be crucial. **Better cooperation — involving social partners — could help individuals in their career planning, facilitate changes between sectors, and contribute to developing an overall educational strategy.**

Answering the EU housing crisis

The EU is in the middle of a housing crisis, with an increasing share of people facing issues with the costs associated with housing, and the sector facing increasing investment needs to adapt to the Green Deal.

As reported by Eurofound[7], the share of income spent on housing decreased for homeowners from 18% in 2010 to 16% in 2019, while it increased for tenants from 28% to 31%. Eurofound also reported that **60% of people spending at least 40% of their income on housing report having difficulties making ends meet.** However, among people spending less than 20% of their income on housing, 42% still have difficulties making ends meet.

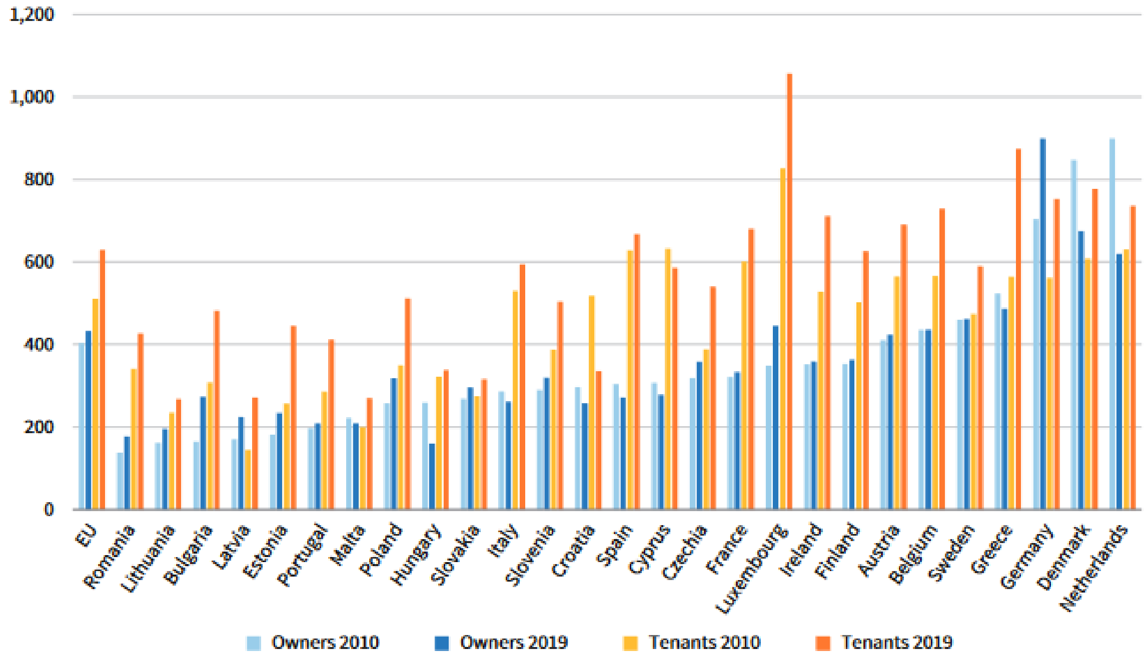
[4] Val Duchesse Social Partner Summit, *Tripartite Declaration for a Thriving European Social Dialogue* (2024)

[5] European Commission, Secretariat-General (2017), *European pillar of social rights*, Publications Office of the European Union, Luxembourg

[6] European Commission (2020), *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – A Strong Social Europe for Just Transition,* COM(2020) 14 final

[7] Eurofound (2023), *Unaffordable and inadequate housing in Europe*, Publications Office of the European Union, Luxembourg.

Figure 4: Housing costs, EU Member States, 2010 and 2019 (monthly purchasing power standard)



Notes: *Included in housing costs: rent payments and mortgage interest payments, gross of housing benefits (housing benefits are not deducted from total housing costs); structural insurance and service charges (for sewage removal, refuse removal), if paid for by tenants; housing taxes; regular maintenance and repairs; and utilities (water, electricity, gas and heating). Member States ordered according to magnitude of 2010 owners' housing costs.*
Source: *Eurostat, Total housing costs in pps – EU-SILC survey [ilc_mded03]*

Social housing, which is a central SGI that fosters economic (more than EUR 14 billion invested in 2021 in France), social (more than 40% of social housing tenants in France have resources below the national poverty threshold) and territorial cohesion (through partnerships with local public authorities, businesses and associations), **could play a key role in supporting the EU out of the housing crisis**.

However, while demand for affordable housing is at an all-time high, **public investment in the sector is falling**, as is the construction of social housing (only 85.000 units were constructed in France in 2023, 40.000 units short of the target set). This reinforces the **lack of available affordable housing** at a time when, in France, 2,600,000 households are waiting for low-cost housing.

This shortfall is having a **significant impact on the job market**, as workers struggle more and more to **find accommodation close to their place of work**, young people are forced to **postpone their entry into active life or keep living with their parents despite working** (18% of young people in the EU live with their parents despite having a full-time job, and 30% in Ireland).

In parallel, **housing companies face new obligations stemming from the implementation of the Fit-for-55** package, namely the renovation of their building stocks to comply with the new regulatory obligations from the revision of the Energy Efficiency Directive, the Energy Performance of Buildings Directive, and the Renewable Energy Directive, as well as the introduction of a carbon emissions trading scheme for buildings and transport.

Addressing the administrative burden and reporting obligations

Enterprises can thrive and grow if they face a **good regulatory environment with clear and stable rules and avoid unnecessary regulations and compliance costs.**

Part of the EU economic ecosystem, **SGIs are a core element of the EU social market economy**. Accessible, high-quality and affordable SGIs are indispensable to the lives of citizens and enterprises. They support the EU autonomy by **providing essential services, managing critical infrastructures, and contributing directly to the growth of the EU economy**. Therefore, they should be acknowledged as drivers for innovation, uptake of new products and services and facilitators of the twin transition.

However, increasing regulatory complexity is challenging for European companies, especially for SGI providers. There is an apparent lack of impact assessment for legislative proposals or impact assessments of low quality. The 2022 Annual Report of the Regulatory Scrutiny Board[8] shows that **62% of all legislative proposals and three implementing measures (0,5%) were accompanied by an impact assessment (AI)**. The Regulatory Scrutiny Board scrutinised 70 impact assessments (compared to 83 in 2021) and eight significant evaluations. 34% of the IA obtained the first negative opinion. RSB stresses that there is room for improvement in the Commission's Impact assessments.

While the implementation of some pieces of legislation adopted in recent months is still underway, **many providers of SGIs express concerns about new reporting obligations stemming** from, amongst others, the EU taxonomy or the European Corporate Sustainability Reporting Directive (CSRD). While such **requirements are crucial for achieving a sustainable transition, ensuring that companies have suitable support instruments will be central.**

Similarly, some of SGI Europe's national sections have reported the need to monitor the quality of implementation and **prevent *gold-plating* through Member States**' "over-implementation" of EU directives.

Continuing to invest and adapt to the green and digital transition

The EU faces historic challenges – adapting to the green and digital transition, supporting Ukraine's defence against Russia, and boosting its Open Strategic Autonomy.

As highlighted in the Staff Working Document "Investment needs assessment and funding availabilities to strengthen EU's Net-Zero technology manufacturing capacity"[9], the **accumulated investment needs amount to around EUR 92 billion over the period 2023-203**0, with a range between about EUR 52 billion in the status quo scenario to around EUR 119 billion in the scenario with no dependence on imports. Those investments will be crucial to "reducing high import dependence for key net-zero technologies while guaranteeing affordable, reliable, and sustainable clean energy".

In 2018, the High-Level Task Force on Investing in Social Infrastructure in Europe published its concluding report, "Boosting Investment in Social Infrastructure in Europe"[10]. It highlighted that "investment in social infrastructure, both private and public, is far from reaching the level needed to cater for the EU's current population, nor is the investment always appropriate given changing needs and expectations over the coming decades." Experts estimated the "**minimum infrastructure gap in social infrastructure investment is estimated at EUR 100-150 billion per annum**", representing a total gap of over EUR 1.5 trillion in 2018-2030.

[8] Regulatory Scrutiny Board (2023), *Annual Report 2022,* Publications Office of the European Union, Luxembourg.

[9] European Commission (2023), *"Commission Staff Working Document - Investment needs assessment and funding availabilities to strengthen EU's Net-Zero technology manufacturing capacity"*, SWD(2023) 68 final.

[10] High-Level Task Force on Investing in Social Infrastructure in Europe (2018), *Boosting Investment in Social Infrastructure in Europe,* Publications Office of the European Union, Luxembourg.

Preserving social investment in the new EU economic governance framework

With climate, digital, and demographic transitions and views of boosting the EU's Open Strategic Autonomy, **SGIs across the EU face unprecedented investment challenges**. As witnessed in the past decade, fiscal consolidation can lead to dramatic decreases in investment[11], particularly in general interest and public services[12]. Therefore, **SGI Europe members have been facing many years of constraints in investing in their green and digital transformation.**

In 2018, SGI Europe joined the "High-Level Task Force on Investing in Social Infrastructure in Europe,"[13] together with the European Association of Long-Term Investors (ELTI). The Task Force identified a **clear "business case" for boosting public and private investments in efficient social infrastructure, education, healthcare and social housing, and services for people**. Then (before the COVID-19 pandemic), the Task Force estimated that the investment gap for health, education, and social housing was around EUR 142 billion per year. Since then, much progress has been achieved regarding how **social investments are recognised through recognition in the European Fund for Strategic Investment, the SURE and the COVID-19 short-term work schemes or the Recovery and Resilience Facility.**

However, all those developments risk being meaningless if the newly agreed-upon EU economic governance framework does not allow Member states to deploy, at a sufficient scale, the social investments we need for the future. As **Member States are called to prepare their medium-term fiscal structural plans, we call for ensuring they include well-designed and well-planned social investments and policies**. We also call on the Commission to look favourably at such planned expenditure.

Published on 11 March 2024 by the European Environment Agency, the first-ever European Climate Risk Assessment[14] highlights a bleak picture regarding the lack of preparedness of the EU to face the consequences of climate change. While there is no single number reflecting the total investment in adaptation needed across Europe, studies compiled by the European Environment Agency have highlighted that the **estimated annual investment required in the EU is between EUR 35-56 billion and, in the scenario with a 3-4°C global temperature rise, between EUR 175-200 billion per year**.[15] Those **investments do not account for the costs linked to the lack of adaptation action** (estimated to have reached over half a trillion euros between 1980 and 2021) **and the economic losses caused by weather- and climate-related events** (which amounted to more than EUR 560 billion between 1980 and 2021).

Absorbing inflation and wage increases

As inflation eased in the second half of 2023, thanks to lower energy commodity prices, the issues linked with wage growth remain prominent across the EU. As indicated in the Winter 2024 (interim) Forecast of the European Commission[16], **wage growth remained robust in 2023, with nominal compensation per employee growth of 5.7% in the EU in 2023-Q3 (compared with the same quarter in 2022).**

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[11] European Central Bank (2017), *Working Paper Series No 2021: The effect of public investment in Europe: a model-based assessment*, Frankfurt

[12] Simona Guagliardo, Mihai Palimariciuc (2021), *Well-performing public services for a fair and resilient European society*, European Policy Centre, Brussels

[13] High-Level Task Force on Investing in Social Infrastructure in Europe (2018), Boosting Investment in Social Infrastructure in Europe, Publications Office of the European Union, Luxembourg

[14] European Environment Agency (2024), *European Climate Risk Assessment,* Publications Office of the European Union, Luxembourg

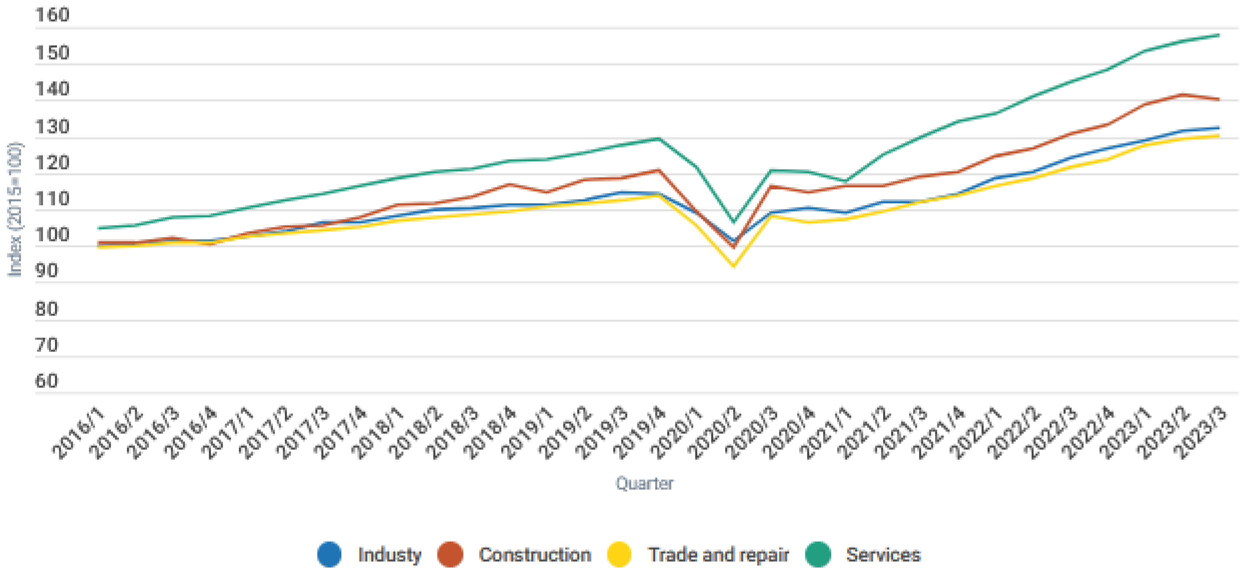
[15] European Environment Agency (2022), *Briefing no. 23/2022: Assessing the costs and benefits of climate change adaptation,* Publications Office of the European Union, Luxembourg

[16] European Commission (2024), *European Economic Forecast – Winter 2024,* Publications Office of the European Union, Luxembourg.

The situation remains **fragmented across the EU**, with some Member States experiencing insufficient wage growth to recover from inflation. **Collective bargaining remains crucial for addressing wage issues and delivering balanced outcomes in many Member States.**

On the other side, **automatic indexation, such as in Belgium, led to dramatic wage and salary increases in the last two years**. The seasonally adjusted wages and salaries index increased by between 6.8% and 8.8% (depending on the sector) compared from 2022 to 2023. While this automatic indexation of wages proved **beneficial to absorbing part of the inflation shock** in 2022 and 2023, it **negatively affected enterprises' productivity and limited companies' investment capacity**.

Evolution of wages and salaries in Belgium (2016-2023)



*(**Source:** StatBel, Indices of Total Wages and Salaries)*

Reconciling the Single Market and Cohesion Policy

The current shape and governance of the Single Market fails to recognise SGIs as the foundation of the European Way of Life. The Single Market was designed in the 1980s and formally established in the 1990s. In parallel, the Cohesion Policy was put together, following Jaques Delors' original intention to make those two policies complementary and reinforce each other.

However, throughout the years, the two policies did not "run in parallel," failing to serve the ultimate purpose of improving citizens' lives. Over the years, **an artificial line was drawn between the Single Market and Cohesion Policy**. Instead of providing the ground for prosperity across the EU, they created an artificial separation between the "productive" and the "non-productive" parts of the EU.

The EU's response to the multiple crises Europe has faced lately, from the pandemic to energy prices, tells us that a **paradigm shift is possible in several EU policies, with a new focus on solidarity and identifying new models to measure growth beyond GDP.** This new setting also makes rethinking the Single Market possible to bring back the original spirit that inspired Jacques Delors. **Accessible, affordable and quality SGIs across all EU regions, from urban centres to rural areas, are the critical precondition for citizens to feel safe and secure in their daily lives.**

We call for a **structured approach and constant investments in SGIs to guarantee safety and security**. All territories must be equipped with sound physical and social infrastructure, giving all (people and economic/social actors) the possibility to exert genuine freedom of choice regarding where to live, work, and do business in Europe. The **lack of a structural approach results in turning to services of general interest only in case of market failure or when facing a crisis**, suddenly discovering that some territories or entire sectors cannot perform because of decades of underinvestment and consequent brain and infrastructure drain.

Better involving social partners in shaping and implementing reform programmes

Designed to respond to the economic and social fallout from the COVID-19 pandemic, **the Recovery and Resilience Facility (RRF) entered into force on 19 February 2021** to finance reforms and investments until 2026. To benefit from support under the RRF, EU governments prepared and submitted national recovery and resilience plans (RRPs), outlining the reforms and investments they will implement with clear milestones and targets (with at least 37% dedicated to green measures and 20% to digital). As a performance-based instrument, the Commission pays out when Member States have achieved the agreed milestones and targets included in the plans.

The RRF has a **two-fold objective:**

- **Helping member States recover and emerge stronger** from the pandemic,
- **Boosting the EU's resilience** and making our economies and societies fit for the future, especially by supporting the green and digital transitions.

Published by the European Commission in February 2024, the **mid-term evaluation of the RRF**[17] assessed its impacts on the economies of the EU and Member States. It concludes that "Member States have used the RRF strategically to advance their reform and investment agendas and tackle both long-standing and new challenges," as **EUR 225 billion has already been disbursed and around 75% of the milestones and targets have been satisfactorily fulfilled or completed.**

The RRF effectively supports the economic recovery in the EU. Around half of the increase in public investment expected in the EU between 2019 and 2025 is estimated to result from investments financed by the EU budget, particularly by the RRF. So far, the RRF has also proven to be an agile instrument, helping Member States face new challenges and circumstances: **Member States were able to request changes to their existing RRPs to take into account new, objective circumstances, as well as to request additional resources through dedicated REPowerEU chapters** to diversify the EU's energy supplies, accelerate the green transition and support vulnerable households.

Through the RRF, and in contrast to previous crises, **public investment in the EU was maintained and even increased in the aftermath of the COVID-19 pandemic**, from 3.0% in 2019 to an expected 3.3% in 2023. This encouraging trend is likely to continue in 2024 and 2025, as the aggregate public investment ratio is expected to rise to 3.5% of GDP by 2025. The Commission's Autumn Economic Forecast highlights that around half of the anticipated increase in public investment between 2019 and 2025 is related to investments financed by the EU budget, particularly by the RRF. Through its design, the RRF **mainly supported lower-income and more vulnerable Member States hit hardest by the pandemic.**

However, while the RRF has effectively supported Member States in addressing the challenges faced since 2021, **SGI Europe members have reported a lack of social partners' involvement in the design of the RRPs**. Eurofound recently released a report, "Social Governance of the Recovery and Resilience Facility: Involvement of the National Social Partners," which presents an unsatisfactory picture regarding the quality of social partners' involvement in the preparation of the RRPs and of the 2023 national reform programmes (NRPs) as part of the European Semester.

[17] European Commission (2024), *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Strengthening the EU through ambitious reforms and investments {SWD(2024) 70 final}*, COM(2024) 82 final.

The RRF Regulation[18] (Art. 18) requires the social partners to be consulted in preparing and implementing the RRF reform and investment plans. However, the **quality of the social partners' involvement in implementing reforms and investments funded by the RRF has been sub-optimal**. As we enter the second phase of implementing the RRPs, SGI Europe calls for taking the lessons learned from the first stages and **ensuring that social partners are regularly and extensively involved.**

The increasingly complex and uncertain economic context in the EU requires **better and broader social partner involvement in policymaking, significantly to shape effective structural reforms and investment programmes**. The social partners' **systematic, meaningful and timely participation** must become a greater priority in developing economic, employment and social policies during the second phase of the Recovery and Resilience Facility implementation. It calls for providing **social partners with appropriate information and sufficient time for meaningful exchanges.**

[18] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility